

ORIGINAL



0000115491

RECEIVED

2010 AUG -5 P 3:40

AZ CORP COM  
DOCKET COR Arizona Corporation Commission

DOCKETED

AUG 5 2010

DOCKETED BY

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE  
APPLICATION OF VALLEY UTILITIES  
WATER COMPANY, AN ARIZONA  
CORPORATION, FOR A  
DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN  
ITS RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-01412A-08-0586

NOTICE OF COMPLIANCE

Pursuant to Decision No. 71482 (February 3, 2010) ("Order"), Valley Utilities Water Company ("VUWCo") hereby submits this Notice of Compliance in the above-captioned matter. The Order requires VUWCo to file as compliance items:

(1) a written policy and procedure to minimize non-arm's length transactions (*see Exhibit A* attached hereto);

(2) a written policy and procedure addressing employee benefits (*see Exhibit B* attached hereto);

(3) an updated version of the equity improvement plan filed as required by Decision No. 68309, which shall: (a) require VUWCo to continue improving its equity position, (b) prohibit VUWCo from draining equity through dividend distributions and other distributions to shareholders such as bonuses and excessive increases in salaries and benefits, and (c) require VUWCo to implement and maintain adequate internal controls

1 over expenditures so as to control expenses and avoid misappropriations (see **Exhibit C**  
2 attached hereto); and

3 (4) a written policy and procedure addressing how VUWCo will ensure that it  
4 complies with all Commission directives, rules, and statutes (see **Exhibit D** attached  
5 hereto).

6 RESPECTFULLY SUBMITTED this 5<sup>th</sup> day of August, 2010.

7 FENNEMORE CRAIG, P.C.

8  
9 By: 

10 Patrick J. Black

11 Attorneys for Valley Utilities Water Company

12 **ORIGINAL** and 13 copies of the foregoing filed  
13 this 5<sup>th</sup> day of August, 2010 with:

14 Docket Control  
15 Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

16 **COPY** of the foregoing hand-delivered  
17 this 5<sup>th</sup> day of August, 2010 to:

18 Steven M. Olea, Director  
19 Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

20 Carmel Hood  
21 Compliance Division  
22 Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

23  
24 By: 

25 2339641.1/24964.003

**EXHIBIT**

**A**

# **VALLEY UTILITIES WATER COMPANY INC.**

## **COMPANY POLICY**

### **NON-ARMS LENGTH TRANSACTIONS**

Non-arms length transactions will not be used in the normal course of business, as it portends a negative perception by the Arizona Corporation Commission. Although there has never been an illegal transaction by the Company, it will strive to maintain the highest ethical position regarding this matter. If in the event that a business necessity arises that creates an unavoidable non-arms length transaction the Company must insure that it is a legal transaction for the corporation to participate in, according to the Laws of The State of Arizona and the United States of America.

All potential scenarios must meet the following criteria:

First, before engaging in a non-arms length transaction the Company must insure that there are no other means available to accomplish that specific requirement.

Second, the Company must insure that the transaction or transactions will not incur an unjustifiable expense that would be passed on to the customers, pursuant to the acceptable and current business practice of the industry.

Third, the Company will advise the Arizona Corporation Commission of the need to participate in such a transaction and provide the reasons why it is unavoidable.

Fourth, the Company must seek Board of Director approval before entering into any such transaction.

**EXHIBIT**

**B**

# **VALLEY UTILITIES WATER COMPANY INC.**

## **COMPANY POLICY**

### **EMPLOYEE BENEFITS**

Employee benefits shall include health, dental and life insurance. Retirement consists of individual Simple IRAs with Company matching funds as prescribed by law.

The Company, due to the small size and limited number of employees, will employ an "Employee Benefits Consultant" to maximize the benefit coverage for all full time employees. From time to time the Company will review its benefit package and will make changes as warranted. Consideration will be given to the package as it relates to cost, coverage, availability and industry standards.

The Company will continue to maintain a benefit package that is conducive to attracting a high quality employee and stay within industry norms for a company of its size.

# EXHIBIT

## C

VALLEY UTILITIES WATER COMPANY INC.

POSITIVE EQUITY POSITION PLAN

Docket No. W-01412A-04-0736 & W-01412A-04-0849

Decision No. 68309 dated November 14, 2005

February 12, 2010

The Subject Decision stated as follows, "IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. shall develop and institute a plan to produce a positive equity position by December 31, 2010, and shall file a copy of the plan, with the Commission's Docket Control, as a compliance item in this docket within 90 days."

Per Decision No. 71482 - Docket No. W-01412A-08-0586 dated February 3, 2010, "Staff determined that Valley's equity position has improved from its last rate case (TY ending December 31, 2003), from a negative \$413,442 to a negative \$6,319" (TY ending June 30, 2008).

As of December 31, 2009, the Company's equity position is a positive \$88,664. The Company has successfully produced a positive equity position twelve months ahead of the recommended date of December 31, 2010 per Decision No. 68309. The Company was able to achieve this positive equity position largely as a result of the shareholders of the Company transferring land and equipment to the Company in exchange for common stock and short-term debt totaling \$429,000.

Per Decision No. 71482 - Docket No. W-01412A-08-0586 dated February 3, 2010, "We find that Valley's original cost rate base (OCRB) is negative \$169,027" (TY ending June 30, 2008).

As of December 31, 2009, the Company's OCRB is a positive \$722,667. In addition, the Company has construction work in progress of \$1,007,188 as of December 31, 2009, related to its arsenic treatment plant that will further increase its OCRB when placed in service in 2010.

The Company plans to continue improving its equity position as follows:

1. Because all equity growth will come from internally generated Retained Earnings derived from Operating Income, the Company will attempt to maintain the operating margin authorized by the Commission by filing new rate applications as often as necessary (annually if need be).



2. File a new Rate Application based upon the Test Year no later than 2010 to provide an additional level of Operating Income that can be reinvested in the Company.

3. File emergency rate applications as necessary when the Company incurs significant, prudent and necessary expenses but does not have the ability to pay, while maintaining the authorized operating margin.

4. Reinvest available Operating Income in new plant and equipment when feasible. This has the equally important benefit of increasing Rate Base.

5. Apply for Accounting Order(s) as necessary, to defer prudent and necessary expenses for consideration of recovery in subsequent rate cases. This will include a mechanism to authorize Staff's expedited approval under that Accounting Order of expenses as incurred.

6. While the Company has not paid dividends in the past, the Company will continue to suspend dividend distributions.

7. Restrict other distributions to shareholders such as bonuses and excessive increases in salaries and benefits.

8. The Company has hired a part-time accountant to implement and maintain adequate internal controls over expenditures so as to control expenses and avoid misappropriations.

**EXHIBIT**

**D**

# **VALLEY UTILITIES WATER COMPANY INC.**

## **COMPANY POLICY**

### **Arizona Corporation Commission Compliance**

The Company will maintain a calendar, Microsoft Outlook, to insure compliance with but not limited to, Commission directives, rules and statutes. The Company will also maintain a close relationship with its legal counsel regarding same.

The calendar will be shared with all management personnel to cause a redundancy that will greatly aid in compliance.

The Company will also increase its staff to reduce the excessive work load currently experienced, which has been the leading cause of failures in the past.